

Statistical bulletin

Profitability of UK companies: April to June 2014

The net rate of return on capital employed for UK private non-financial corporations related to their UK operations.



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1 . Correction

January 14 2015 09:30am

As previously announced on 7 January 2015, an error was found in manufacturing and service sector estimates, which affects the following CDIDs:

Manufacturing

LRXR - Gross Operating Surplus LRXS - Net Operating Surplus LRYB - Gross % Rate of Return LRYC - Net % Rate of Return

Services

LRYF - Gross Operating Surplus LRYG - Net Operating Surplus LRYP - Gross % Rate of Return LRYQ - Net % Rate of Return

ONS have now corrected these and apologises for any inconvenience that this may cause.

2 . Key points

- In this release both Gross Operating Surplus and Capital Employed data have been revised to incorporate European System of Accounts 2010 changes. Rates of return have consequently been revised back to 1997
- Private non-financial corporations' profitability, as measured by their net rate of return, was estimated at 11.8% in Q2 2014. This was at the higher end of the quarterly range experienced during the last five years
- Manufacturing companies' net rate of return was estimated at 8.1% in Q2 2014, 0.4 percentage points higher than Q1 2014
- Service companies' net rate of return was estimated at 17.2% in Q2 2014. This was the highest estimated rate since the series began in Q1 1997
- UK Continental Shelf (UKCS) companies' net rate of return was 16.9% in Q2 2014. This was the lowest estimated rate since the series began in Q1 1997
- UK non-CS companies' net rate of return was 11.6% in Q2 2014. This was the highest rate since Q4 1998 (12.0%)
- To see the above data in more context, data for earlier periods are shown at Table 1 and data for longer time periods are presented in the graphs at Figures 1 to 4

3 . About this release

The net rate of return on capital employed for UK private non-financial corporations related to their UK operations for April to June 2014. The net rate of return is a common way of measuring the profitability or economic success of a company or sector. It is calculated by expressing the economic gain or profit as a percentage of the capital used to produce it. See paragraph 2 of the Background Notes for a more comprehensive definition.

The estimates in this statistical bulletin are consistent with the [Quarterly National Accounts Q2 2014](#), published on Friday 30 September 2014, as described in the 'revisions' section.

4 . Your views matter

We are constantly aiming to improve this release and its associated commentary. We would welcome any feedback you might have, and would be particularly interested in knowing how you make use of these data to inform your work. Please contact us via email: profitability@ons.gsi.gov.uk or telephone Stephanie Duff on +44 (0) 1633 456098.

5 . Net rate of return of private non-financial corporations

The net rate of return of all private non-financial corporations in Q2 2014 was estimated at 11.8%. This compares with the revised estimate of 11.9% for Q1 2014.

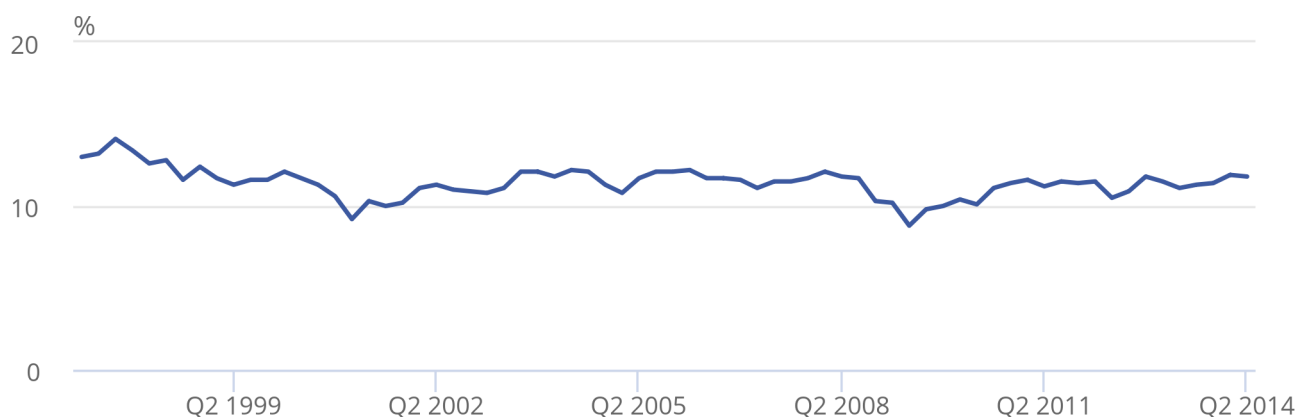
As Figure 1 shows, the net rate of return for private non-financial corporations remained, in Q2 2014, at the higher end of the range experienced during the last five years. The net rate of return for private non-financial corporations peaked in Q3 1997 at 14.1% and was at its lowest level in Q2 2009 at 8.8%.

Figure 1: Net Rate of Return of PNFCs, Q1 1997 to Q2 2014

UK

Figure 1: Net Rate of Return of PNFCs, Q1 1997 to Q2 2014

UK



Source: Office for National Statistics

Table 1: Annual Net Rate of Return

	%			
	Total Manufacturing Services		UK Continental Shelf (UKCS)	
1997	13.4	14.1	14.3	24.4
1998	12.4	12.0	14.0	20.1
1999	11.5	11.2	12.7	22.5
2000	11.4	10.4	11.7	35.8
2001	9.9	7.7	10.2	34.7
2002	11.1	9.0	11.7	33.5
2003	11.5	8.2	13.3	31.5
2004	11.8	10.0	13.1	29.2
2005	11.7	9.2	12.8	35.1
2006	11.8	8.7	12.6	38.6
2007	11.4	8.0	12.5	35.3
2008	11.4	8.1	12.6	40.3
2009	9.7	5.2	12.1	31.5
2010	10.8	5.6	13.1	39.3
2011	11.4	8.6	13.3	42.1
2012	11.2	7.0	14.4	32.4
2013	11.3	8.3	14.9	25.6

Source: Office for National Statistics

Table 2: Quarterly Net Rate of Return

				%
	Total Manufacturing Services			UK Continental Shelf (UKCS)
1997 Q1	13.0	13.2	13.5	27.5
1997 Q2	13.2	13.9	14.1	22.5
1997 Q3	14.1	14.9	15.1	23.8
1997 Q4	13.4	14.2	14.3	23.6
1998 Q1	12.6	12.2	13.0	22.7
1998 Q2	12.8	14.3	14.1	21.8
1998 Q3	11.6	10.3	14.3	17.6
1998 Q4	12.4	11.2	14.6	18.3
1999 Q1	11.7	11.9	12.0	18.5
1999 Q2	11.3	13.0	12.3	19.4
1999 Q3	11.6	10.0	13.5	25.9
1999 Q4	11.6	10.2	12.9	26.3
2000 Q1	12.1	12.6	11.3	32.2
2000 Q2	11.7	12.0	11.8	34.5
2000 Q3	11.3	9.7	13.0	37.0
2000 Q4	10.6	7.2	10.5	39.6
2001 Q1	9.2	8.1	7.7	36.9
2001 Q2	10.3	8.6	10.5	39.8
2001 Q3	10.0	7.4	11.3	31.9
2001 Q4	10.2	6.6	11.3	30.0
2002 Q1	11.1	12.0	9.6	31.4
2002 Q2	11.3	9.5	10.9	33.2
2002 Q3	11.0	8.0	13.0	31.8

2002 Q4	10.9	6.3	13.1	37.6
2003 Q1	10.8	6.7	11.6	35.5
2003 Q2	11.1	8.2	12.9	27.2
2003 Q3	12.1	8.2	15.3	31.3
2003 Q4	12.1	9.6	13.3	31.9
2004 Q1	11.8	10.5	12.5	28.4
2004 Q2	12.2	10.6	13.5	28.9
2004 Q3	12.1	9.9	13.9	30.2
2004 Q4	11.3	9.1	12.4	29.3
2005 Q1	10.8	9.1	11.1	30.9
2005 Q2	11.7	10.1	11.8	35.1
2005 Q3	12.1	9.4	14.0	37.1
2005 Q4	12.1	8.3	14.4	37.4
2006 Q1	12.2	10.3	12.7	44.8
2006 Q2	11.7	8.8	12.2	42.3
2006 Q3	11.7	8.4	12.9	36.8
2006 Q4	11.6	7.4	12.8	30.4
2007 Q1	11.1	9.7	11.6	28.0
2007 Q2	11.5	7.7	12.7	28.5
2007 Q3	11.5	7.9	13.2	34.5
2007 Q4	11.7	6.9	12.6	50.5
2008 Q1	12.1	9.4	13.2	46.7
2008 Q2	11.8	10.3	10.9	52.6
2008 Q3	11.7	6.4	13.0	44.1
2008 Q4	10.3	6.4	13.3	17.7

2009 Q1	10.2	5.7	12.7	30.7
2009 Q2	8.8	4.6	11.5	21.4
2009 Q3	9.8	5.2	12.4	29.7
2009 Q4	10.0	5.2	11.8	44.4
2010 Q1	10.4	5.7	12.7	34.5
2010 Q2	10.1	5.6	12.2	36.4
2010 Q3	11.1	5.6	14.1	41.2
2010 Q4	11.4	5.6	13.4	45.1
2011 Q1	11.6	9.2	12.9	45.4
2011 Q2	11.2	9.5	12.7	41.3
2011 Q3	11.5	8.0	14.2	39.1
2011 Q4	11.4	7.6	13.4	42.6
2012 Q1	11.5	7.3	13.9	38.0
2012 Q2	10.5	5.9	13.8	32.6
2012 Q3	10.9	6.1	15.5	29.9
2012 Q4	11.8	8.7	14.3	29.3
2013 Q1	11.5	6.2	15.1	31.2
2013 Q2	11.1	7.6	14.9	24.6
2013 Q3	11.3	9.2	15.7	24.9
2013 Q4	11.4	10.2	14.0	22.1
2014 Q1	11.9	7.7	16.5	19.1
2014 Q2	11.8	8.1	17.2	16.9

Source: Office for National Statistics

6 . Economic context

According to the Quarterly National Accounts, activity in the UK economy grew by 0.9% in Q2 2014, the highest quarterly rate in 4 years. In contrast, the net rate of return for UK private non-financial corporations remained broadly unchanged, at 11.8% compared to 11.9% in the previous quarter. This suggests that although gross operating surplus including alignment adjustment – a measure of profits – grew by 3.1% in the last quarter, the amount of capital used grew at a similar rate.

This aggregate measure hides changes in the net rate of return for individual industries, with increases in both the manufacturing and services industry. However, these increases were offset by a continuing fall in the net rate of return for continental shelf companies. Whilst the net rate of return for manufacturing and services industries tends to move around quarter to quarter, the net rate of return of continental shelf companies – a sector which is dominated by oil and gas extraction - has seen a steady decline since 2011. This is more than likely due to the costs of extraction rising as reserves become depleted, with output in the sector also in long term decline.

The overall business environment continues to improve as in previous quarters, in part driven by a rise in demand. Quarter on year growth in real business investment was the largest since the 2009 downturn, at 11.0%, whilst growth on the previous quarter was higher than in the two previous periods at 3.3%. Despite this, Ernst and Young report that UK quoted companies (Main Market and AIM listed) issued 63 profit warnings, a reduction on the previous quarter but higher than the same period in each of the last three years. In addition the rise in the FTSE100, which has been sizable since Q1 2013, has been somewhat more subdued; ending the quarter on a high but still hovering around the 6700 mark.

7 . Manufacturing and service companies, Q2 2014

Manufacturing companies

The estimated net rate of return for manufacturing companies in Q2 2014 was 8.1%. This was 0.4 percentage points higher than Q1 2014.

As Figure 2 highlights, the estimates of net rate of return for the manufacturing sector can be volatile. Variation from one quarter to the next usually reflects the fortunes of a number of the larger companies and is not necessarily an indicator of improving or worsening economic performance across the sector as a whole.

Service companies

The estimated net rate of return for service companies in Q2 2014 was 17.2%, the highest estimated rate since records began. This compares with the revised estimate of 16.5% in Q1 2014 and was at its highest point since the series began.

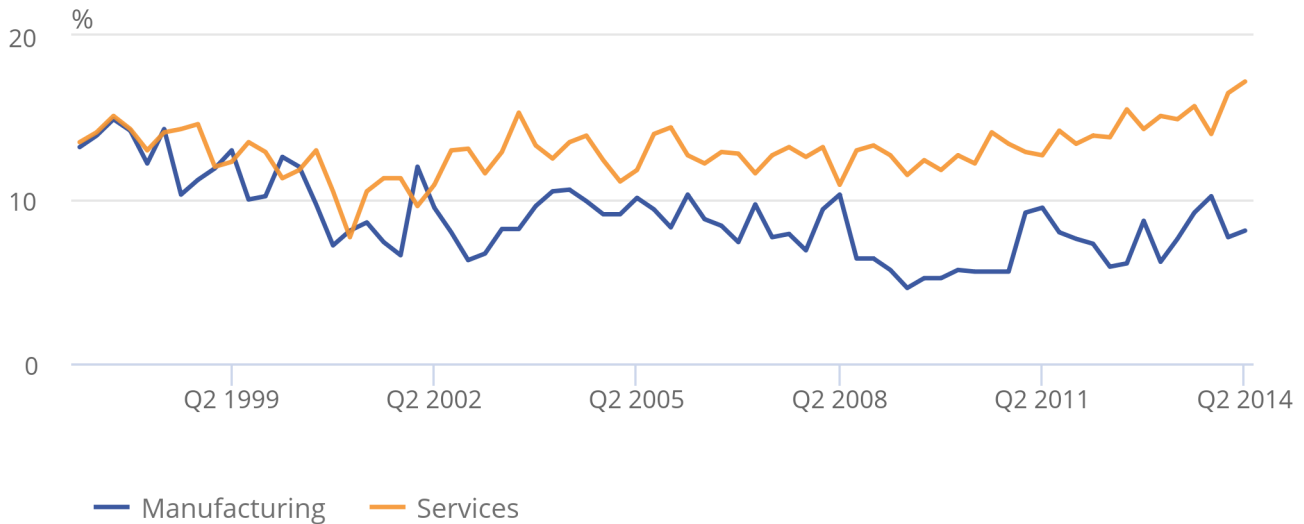
Figure 2 shows the net rate of return for service companies since Q1 1997. It shows that the estimated rate of return peaked in Q2 2014. The lowest estimated rate of return was in Q1 2001 (7.7%).

Figure 2: Net Rate of Return of Manufacturing and Services Companies, Q1 1997 to Q2 2014

UK

Figure 2: Net Rate of Return of Manufacturing and Services Companies, Q1 1997 to Q2 2014

UK



Source: Office for National Statistics

8 . United Kingdom non-Continental Shelf (UK non-CS) companies, Q2 2014

UK non-CS companies comprise manufacturing, service and other UK non-CS companies (such as construction and power supply).

The estimated net rate of return for UK non-CS companies in Q2 2014 was 11.6%, the highest estimated rate since Q4 1998 when it was estimated at 12.0%.

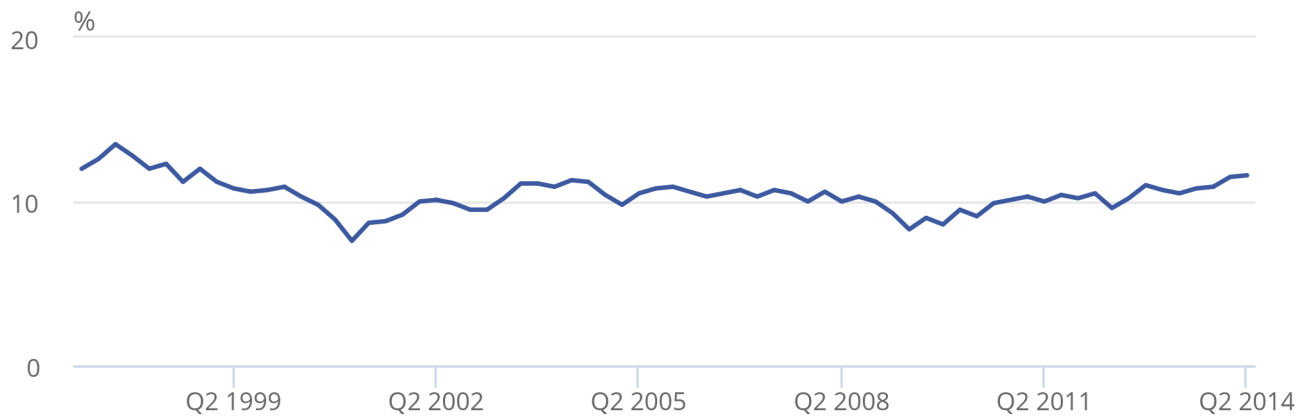
Figure 3 shows that the net rate of return of UK non-CS companies was very similar to the picture for all private non-financial corporations (as seen in Figure 1), with a series of stronger estimates in the last few years.

Figure 3: Net Rate of Return of UK non-CS Companies, Q1 1997 to Q2 2014

UK

Figure 3: Net Rate of Return of UK non-CS Companies, Q1 1997 to Q2 2014

UK



Source: Office for National Statistics

9 . United Kingdom Continental Shelf (UKCS) companies, Q2 2014

UKCS companies are defined as those involved in the exploration for, and extraction of, oil and natural gas in the UK. Due to the nature of the capital assets employed, net rates of return for continental shelf companies are not directly comparable with those for other industries.

The estimated net rate of return for UKCS companies in Q2 2014 was 16.9%, the lowest recorded estimated rate since records began in 1997.

Figure 4: Net Rate of Return of UKCS Companies, Q1 1997 to Q2 2014

UK

Figure 4: Net Rate of Return of UKCS Companies, Q1 1997 to Q2 2014

UK



Source: Office for National Statistics

10 . International comparisons

Profitability is a relative measure of profit and what created it. This bulletin shows the rate of return on capital employed. Unfortunately, other countries use a range of different measures, making international comparisons difficult.

Eurostat show comparisons, across the European Union, of the aggregated national profit share defined as Gross Operating Surplus (GOS) plus mixed income divided by Gross Value Added (GVA) on a European System of Accounts 2010 (ESA10) basis. GVA is the difference between the cost of inputs (whether capital or labour) and the cost of the output. The difference in the cost is due to the value added by the use of labour and capital. GOS is the income earned from capital.

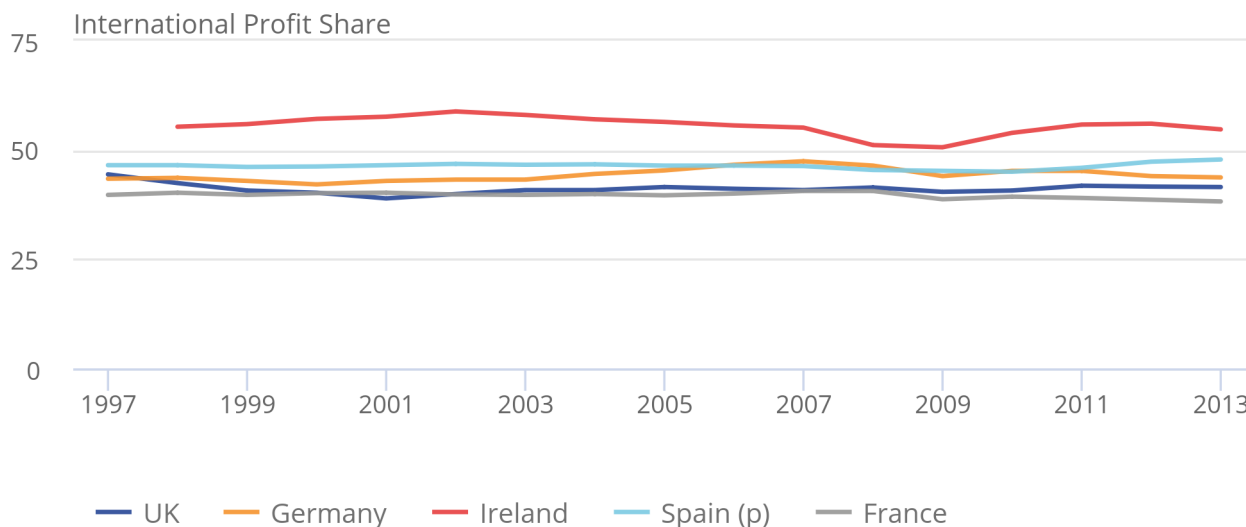
International data on an ESA10 basis are only available at the aggregated National level (Figure 5).

Figure 5: International Profit Share 1997 to 2013

International Comparisons

Figure 5: International Profit Share 1997 to 2013

International Comparisons



Source: Office for National Statistics, Eurostat

The UK aggregated profit share in 2013 was 41%, down from 42% in 2012. The UK aggregated profit share is comparable with that of France and with the exception of 1997 is consistently lower than the other selected European countries.

11. Background notes

1. What's new

Changes to European standards

To meet updates to international standards, estimates in this bulletin have moved from the European System of Accounts 1995 (ESA95) to the European System of Accounts 2010 (ESA 2010).

Revisions

Revisions to the net rates of return for PNFCs have been made back to Q1 1997, and are consistent with ONS' annual national accounts publication – [Blue Book 2014](#), published on 31 October 2014 and the [Capital Stocks, Consumption of Fixed Capital 2014](#) release published on 14 November 2014.

The Gross Operating Surplus data revisions are due to the incorporation of European System of Accounts 2010 changes such as the inclusion of research and development as investment, and changes to the calculation of financial intermediation services indirectly measured.

The Capital Stocks and Capital Consumption data revisions are due to reclassification from Standard Industrial Classification 2003 to Standard Industrial Classification 2007 and include a range of other

changes – changes to the estimation of own account construction; the inclusion of military weapons systems and the inclusion of small tools in estimates of investment.

Further detailed information on all changes to National Accounts can be found here.

[National Accounts articles, Summary of ESA10 and BPM6 changes on Sector and Financial Accounts](#)

[United Kingdom National Accounts, the Blue Book, 2014 Edition](#)

[Capital Stock, Capital Consumption, Impact of the methodological changes to the estimation of capital stocks and consumption of fixed capital](#)

2. Understanding the data

Interpreting the data

Private non-financial corporations (PNFCs) are comprised of UK Continental Shelf (UKCS), manufacturing, non-financial service sector companies and others (including construction, electricity and gas supply, agriculture, mining and quarrying). UKCS companies are defined as those involved in the exploration for, and extraction of, oil and natural gas in the UK.

The rates of return presented are ratios of operating surpluses compared to capital employed, expressed as percentages. The ratios measure the 'accounting' rates of return achieved in a particular period against total capital employed. The rates of return are on the basis of current replacement cost and relate to UK operations of PNFCs. The net rate of return uses capital estimates which are net of capital consumption, and is more widely used than the gross rate of return. Rates of return are published for quarters and for years.

The main components of the operating surpluses data used in the compilation of the rates of return are the profits data from the Quarterly Operating Profits Survey (QOPS) and provisional HMRC company profits data.

The underlying capital data used to calculate these rates of return are based upon data for capital stocks and capital consumption.

Definitions and explanations

The gross operating surplus of PNFCs consists of gross trading profits, plus income from rental of buildings, less inventory holding gains.

Gross trading profits include only that part of a company's income arising from trading activities in the UK. It does not include income from investments or other means, such as earnings from abroad. Gross trading profits are calculated before payments of dividends, interest and tax. The gross trading profits figures used in the calculation of **gross operating surplus** exclude the quarterly alignment adjustments applied to non-UKCS companies' gross trading profits, as published in the Quarterly National Accounts.

Inventory holding gains are the differences in the change in the book value of inventories measured at replacement cost and historic cost. The holding gain is subtracted from profits because revaluations are not considered to be part of economic activity, as defined for National Accounts purposes.

Estimates of gross capital stock are a measure of the cost of replacing all produced capital assets held at a particular point in time. **Capital employed** is the value of fixed assets, plus the value of inventories. It measures the value at replacement cost of all fixed assets at the end of a calendar year. This includes all tangible assets and intangible assets which have been produced and are themselves repeatedly or continuously used in the processes of production for more than a year. Tangible assets include buildings, plant and machinery. Intangible assets include computer software and mineral exploration costs. For UKCS companies, capital employed includes mineral exploration costs and oil rigs, but not the oil and gas reserves that are classified as non-produced assets. Inventories include raw material and fuel that are used up in production. Book values are used for levels of inventories.

In the calculations for net rates of return, estimates of net operating surplus are net of **capital consumption** (depreciation). Capital consumption is derived from capital stock and covers the depreciation of fixed assets over their service lives. Estimates of net capital are net of accumulated capital consumption; that is, they are a measure of the written down replacement costs of fixed assets.

Use of the data

The underlying profits data used to calculate the rates of return are used within the UK National Accounts. They are consistent with the [Quarterly National Accounts Q2 2014](#) and the [UK Economic Accounts Q2 2014](#), both published on 30 September 2014.

3. Methods

Sampling methodology

Details on the methods used for the Quarterly Operating Profits survey are available in the [Quality Methodology Information \(160.1 Kb Pdf\)](#) document.

Perpetual inventory method

Underlying estimates of capital stock and capital consumption are produced using the Perpetual Inventory Method. Further details are available in the '[Capital Stocks, Consumption of Fixed Capital 2014](#)', publication, which was published on Friday 14 November 2014.

4. Quality

The net rate of return is defined as the ratio of the operating surplus compared to the capital employed, expressed as a percentage. The accuracy of the data in the numerator is likely to be high because the main component (profits) is benchmarked every six months to definitive, comprehensive, HMRC data. The accuracy of the data in this release for the denominator is likely to be more accurate than in previous releases due to the recent methodological changes.

The [Quality Methodology Information \(118.8 Kb Pdf\)](#) report for Profitability is available on the Office for National Statistics website.

The standard error of a series is a measure of the spread of possible estimates that might be obtained when taking a range of different samples of the same size. This provides a means of assessing the accuracy of the estimate: the lower the standard error, the more confident one can be that the estimate is close to the true value. Standard errors for quarterly profits, a key component of the numerator in the profitability data, are currently being developed and will be published in this Bulletin in the near future.

Revisions

Table R1 accompanying this bulletin shows the revisions to the net rates of return made back to Q1 1997. These revisions are consistent with the data published in the latest [Quarterly National Accounts Q2 2014](#) statistical bulletin on 30 September 2014 and the [Blue Book 2014](#) published on 31 October 2014.

Estimates for the most recent quarters are provisional and, as usual, are subject to revisions in the light of updated source information consistent with the [National Accounts revisions policy](#). ONS has a web page dedicated to [revisions to economic statistics](#) which brings together ONS work on revisions analysis, links to relevant articles, revisions policies and key documentation from the Statistics Commission's report on revisions.

5. Relevant links

[Quarterly National Accounts](#)

[United Kingdom Economic Accounts](#)

6. Publication policy and Code of Practice for Official Statistics

Details of the policy governing the release of new data are available from the Media Relations Office. Also available is a [list of those given pre-publication access](#) to the contents of this release.

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7. Accessing data

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11. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

These National Statistics are produced to high professional standards and released according to the arrangements approved by the UK Statistics Authority.